2Q20 Outlook – The world economy under quarantine

April 3, 2020

www.banorte.com
@analisis_fundam

Gabriel Casillas
IRO and Chief Economist
gabriel.casillas@banorte.com

Alejandro Padilla
Executive Director of Economic Research and Financial Markets Strategy
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Manuel Jiménez
Director of Market Strategy
manuel.jimenez@banorte.com

The Coronavirus has become a watershed for the entire world and has turned into the main driver of global financial markets. This is a new reality that will continue reshaping our daily lives for an unknown period of time, with important health and economic consequences. Moreover, this shock is hitting the global economy at a late phase in the cycle. High uncertainty, in tandem with a high-speed rate of contagion, has affected sentiment among all types of investors and has increased strongly the likelihood of a global recession this year. This situation has steered a rapid response from policymakers. The Federal Reserve –in tandem with other 54 central banks– deployed an aggressive monetary stimulus in the form of lower interest rates and the implementation of unparalleled quantitative programs. In a similar manner, governments have unleashed unprecedented fiscal packages to avoid the feared havoc, with the US having a leading role unveiling a US$2 trillion blowout.

As if this were not enough, adding to the gloom was the relentless negative backdrop in oil markets, with some similarities to the 2014-2016 shock. Crude oil prices have plunged severely following the breakdown of the OPEC+ agreement after the official meeting of the cartel on March 5th in Vienna, especially from Russia and Saudi Arabia. The world is entering uncharted territory, with higher risk aversion that will likely prevail at least during the 2Q20.

This is a very challenging scenario for Mexico. The combined shocks outlined above have sparked a series of sizable reductions in GDP forecasts for this year and pose a significant risk for fiscal accounts. Consistent with this new balance of risks, *S&P Global* downgraded the credit rating of Mexico and Pemex from “BBB+” to “BBB” on March 26th, leaving a “negative” outlook. Moreover, today *Fitch Ratings* reduced Pemex’s credit rating from "BB+" to "BB", also with a “negative” outlook. To address this problematic situation, local authorities have announced several measures, joining this global inertia of timely policy response. Banxico lowered its reference rate by 50bps in an intra-meeting decision and heralded a series of measures to improve liquidity conditions in local markets –some of them in cooperation with the MoF via de FX Commission–. The federal government has also enforced a series of health and fiscal measures to lessen the adverse effects of the pandemic. However, in our view, more measures will be implemented in 2Q20.

Mexico’s main macroeconomic and financial forecasts
End of period

	1Q20	2Q20	3Q20	4Q20	2020
GDP (% y/y)	-0.7	-8.3	-4.9	-0.3	-3.5
Inflation (% y/y)	3.4	3.3	3.5	3.6	3.6
USD/MXN	23.67	25.01	22.63	22.00	22.00
Banxico's reference rate (%)	6.50	5.50	5.50	5.50	5.50
28-day TIIE (%)	6.71	5.75	5.80	5.70	5.70
Mexbol (points)	-	-	-	37,600	37,600

Source: Banorte

Document for distribution among public

The implications of the pandemic

Alejandro Padilla
Executive Director of Economic Research and Financial Markets Strategy
alejandro.padilla@banorte.com

The Coronavirus pandemic has wreaked an unthinkable mayhem in the population's health across the board, in the economic dynamics in almost every country, as well as in the performance of financial markets. The concerns about this health crisis have soared in recent days given the exponential contagion outside China, with the total confirmed cases in the world reaching one million, as observed in the table below. Among the most affected countries are the US (270,473 infected persons), Italy (119,827) and Spain (117,710), surpassing China that has portrayed some stability at 82,511 cases. Investors are anxiously waiting for the inflection point in the contagion curves in these countries, which may come well into the 2Q20.

Understanding the economic consequences of the pandemic. An initial stage was identified in December 2019 when a COVID-19 community-level outbreak took place in the Chinese province of Hubei. The rapid contagion triggered severe mobility restrictions by central authorities in Beijing. This phase had an adverse impact via the disruptions in the world´s manufacturing production chain. A second stage took place at the beginning of this year, when the virus started spreading outside China, leading to the implementation of some travel restrictions between countries and other preemptive measures (*e.g.* voluntary self-isolation), affecting primarily trade, tourism and service-related industries. The third stage started when the *World Health Organization* declared COVID-19 as a pandemic on March 11th, when imported Coronavirus cases unleashed community-level outbreaks. This is the phase we are currently experiencing and will conclude until an inflection point is reached in the number of confirmed cases –especially new ones– and death tolls, in our view between the end of April and beginning of May.

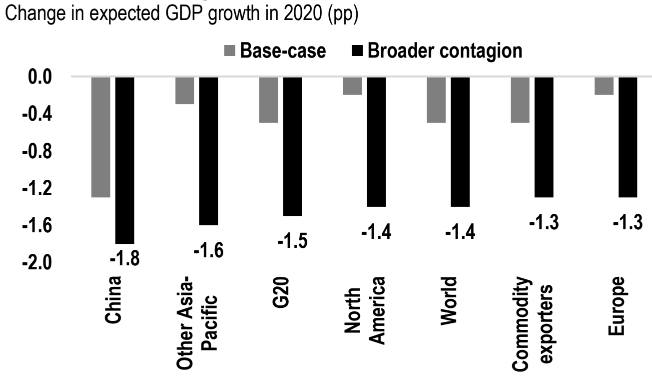
The current stage has unfolded several draconian measures worldwide in terms of mobility restrictions (*e.g.* quarantines) to tackle the rapid transmission of the disease. The economic consequences are severe, affecting consumption, employment, trade, tourism, investment, and basically every industry as foreseen by the OECD (please see chart below). In response to this daunting backdrop, central banks have deployed all their weaponry, in coordination with unprecedented fiscal stimulus and other emergency measures from governments and multinational organizations, such as the IMF.

People confirmed with Coronavirus

Country	Confirmed cases	Deaths
Global	**1,088,878**	**58,382**
United States	270,473	7,064
Italy	119,827	14,681
Spain	117,710	11,025
Germany	91,159	1,275
China	82,511	3,322
France	65,197	6,496
Iran	53,183	3,294
United Kingdom	38,688	3,605
Turkey	20,921	425
Switzerland	19,606	604

Source: Johns Hopkins University
Information as of April 3rd, 2020

COVID-19 impact on growth
Change in expected GDP growth in 2020 (pp)



Source: OECD Economic Outlook (March 2020)

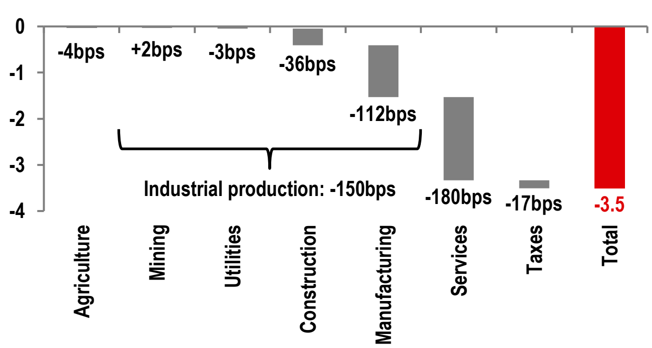
Mexico

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

The Mexican economy will also face a severe impact from the COVID-19 pandemic that is wreaking havoc around the world, both, because of the country's global trade links and because of the halt on domestic economic activity to fight the pandemic spread. In this context, we recently published our estimate of a 3.5% y/y contraction in 2020. In monthly data, figures available suggest the economy was not seriously injured in January and February. Nevertheless, more timely indicators such as IMEF PMIs, already suggest a sizable shock in March, as consumers and companies started implementing social- distancing measures. Most of the impact would be in April, with the Federal Government declaring a "sanitary emergency" and the suspension of non-essential activities from March 30th to at least April 30th. Therefore, the better part of the contraction would be on 2Q20 (-5.2% q/q), especially in April and May. Afterwards, we expect a sequential improvement in both 3Q and 4Q, although from a very low base of comparison that will not be enough to result in growth in annual terms. On a full-year basis, external demand would be among the sectors hit the most, showing up in a hefty contraction in both exports (-6.9% y/y) and imports (-8.7%), as they resent their high integration with US supply chains. Given higher uncertainty and economic weakness ahead, we also anticipate investment to plunge (-9.5%). Consumption would also decelerate (-2.0%), albeit more modestly. On the supply side, the strongest impact would be on manufacturing –in line with the outlook for external demand– and services –closely related to consumption–. In industry, mining might not suffer as much, although risks are to the downside on the back of the steep fall in oil prices. It should be mentioned that risks to this scenario are to the downside, as they depend critically on the evolution, magnitude and duration of the pandemic.

Regarding prices, we still estimate headline inflation at 3.6% by year-end. We believe dynamics will be influenced by three main factors. To the upside, the potential pass-through effect from the exchange rate to prices, as the MXN depreciated 20.1% in the quarter. Nevertheless, we identify two to the downside: (1) The decrease in global energy prices, including oil; and (2) the additional widening of the output gap. In monetary policy, we believe Banxico will continue cutting the reference rate, closing the year at 5.50%. In our view, the central bank will keep evaluating the relative importance of: (1) The deceleration of the economy; (2) the relative monetary policy stance, especially against the US; (2) a very uncertain inflation outlook that could be more favorable in the short-term; and (3) higher risks to financial stability, such as further downgrades to the country's credit rating.

GDP 2020: Contribution to annual growth
% y/y, basis points



Source: Banorte

GDP 2020
% y/y nsa, %q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	**-0.7**	**-8.3**	**-4.9**	**-0.3**	**-3.5**
Private consumption	0.2	-6.3	-2.5	0.3	-2.0
Investment	-8.3	-18.2	-8.9	-2.4	-9.5
Exports	-2.7	-22.4	-7.0	5.4	-6.9
Imports	-7.0	-21.7	-6.5	0.3	-8.7
% q/q					
GDP	**-0.8**	**-5.2**	**2.2**	**2.4**	**--**

Source: Banorte

United States

Katia Goya
Senior Global Economist
katia.goya@banorte.com

The Coronavirus has spread more than anyone would have thought in this country, leading to sharp downward adjustments in growth estimates. Despite unprecedented monetary and fiscal policy responses, a sharp drop in GDP will likely not be avoided, which we estimate at -2.3% y/y this year (see table below). The US is already the epicenter of the pandemic, with the highest number of cases globally, leading to more strict containment measures since mid-March.

On the consumer side, the impact so far has been felt mainly on the sale of goods (-13.3% m/m in February), particularly durables (-7.6% m/m), while services remained strong. We estimate that, beginning in March, the latter will show a deep fall. Moreover, the strong impact on the labor market and confidence levels will probably push household spending down several months after the spread can be controlled. Meanwhile, new investments have been stopped amid the strong disruption of supply chains and uncertainty about the magnitude and duration of the virus' impact.

In this context, we expect economic activity to have contracted 0.8% saar in 1Q20, with a 0.8% drop in private consumption, -7.8% in fixed investment and -5.9% in exports. We estimate 2Q20 would be the weakest, with a contraction of GDP of 17.5% saar, amid a fall of 18.5% in consumption, a 21.9% drop in fixed investment and reductions of 18.5% and 15.1% in exports and imports, in the same order. After these falls, we expect activities to gradually normalize, anticipating a rise in GDP in 3Q20 and 4Q20 of 5.1% and 1.8%, respectively. The greatest impact on the labor market would be observed in April and May, where previous experiences of crisis anticipate falls of more than 500,000 jobs per month and an unemployment rate that could reach levels above 10%.

We believe stimulus, including three (or more) fiscal packages, the last one the largest in history, in addition to a series of measures announced by the Fed to provide direct loans, will help the economy recover later this year under the assumption that the expansion of COVID-19 will be controlled. We also anticipate that the Fed will continue to take measures aimed at increasing liquidity, along added support from the fiscal side. Finally, we consider that the response of both Republicans and Democrats to the effects of the spread of the Coronavirus will be decisive in the presidential election to be held on November 3rd, where the probability that Trump gets reelected has fallen sharply.

US: Banorte Forecasts

	1Q20	2Q20	3Q20	4Q20	2020**
GDP (% q/q annualized rate)*	-0.8	-17.5	5.1	1.8	-2.3
Private Consumption	-0.8	-18.5	6.1	2.0	-2.2
Fixed Investment	-7-8	-21.9	2.0	0.8	-5.6
Exports	-5.9	-18.5	-0.4	3.4	-4.9
Imports	-6.6	-15.1	-0.8	3.6	-5.9
CPI (% y/y, average)	2.0	1.5	1.7	1.9	1.8
Unemployment rate (%, eop)	4.4	12	9.5	8.1	8.1
Non-farm payrolls (thousands)	-212	-2,900	405	530	-2,177

* All GDP estimates are % q/q saar, except for 2020, which is % y/y. ** 2020 figures are reported in annual rates. eop: end of period.
Source: Banorte

Global

Katia Goya
Senior Global Economist
katia.goya@banorte.com

The spread of COVID-19 points to a global recession in 2020. Monetary and fiscal responses have not waited in the sidelines, with some of the main central banks even taking coordinated actions (*e.g.* BoE). Moreover, fiscal stimulus in advanced economies (AE) has been mainly targeted to provide direct support and increased financing to businesses and households affected by this crisis. Despite of the latter, the global economy will hardly avoid a contraction, which according to the *Institute of International Finance* could be of 0.4%, assuming that the virus is controlled in the summer and that activity recovers during the second half.

Monetary policy actions in AE have used almost all the tools available to central banks (reinitiating or increasing asset purchase programs, along new liquidity –some of them with other countries– and credit facilities, among others). This is happening in a context in which the main tool for most, the interest rate, was already close to the 0% "lower bound" even before the appearance of COVID-19. Emerging markets have cut their reference rates even after the strong depreciation of their currencies amid strong capital flight, in a bid to stem the strong contraction anticipated for their economies.

China, where the pandemic began, took containment measures before most countries, with the quarantine in place in Wuhan from January 23rd to February 10th, when the extension of the Lunar New Year holiday ended. As a result, the hit was likely more severe in 1Q20, which we estimate a drop of more than 10% y/y. Nevertheless, and contrary to other regions where the impact will likely be concentrated in 2Q20, China could show an incipient recovery in the latter period. In this respect, official PMI's for March already rebounded above the 50pts threshold, both in services and manufacturing. We estimate that the economy could grow about 6% in 2Q20 and 3Q20, although the recovery will be limited and at risk due to the plunge in aggregate demand in the US and the Eurozone, which today are experiencing what China did some weeks ago.

In the Eurozone, monetary stimulus has been accompanied with aggressive fiscal stimulus, among them the relaxation of rules in the *Stability and Growth Pact* that established a fiscal deficit limit of 3% of GDP. We do not rule out additional measures in the short-term, as the economy will likely contract in the first quarter and even more in the second. It should be highlighted that in Italy, containment measures deepened since March 25th, while in Germany and Spain they began around the middle of the month. On the other hand, Spain is likely going to be among the most affected countries in the region, as it is highly dependent on tourism services.

In a similar tone to the rest of the world, emerging-market economies will show deep declines in GDP. This has resulted in most of them advancing new stimulus measures, although more limited in magnitude as the room to maneuver is more constrained. In Brazil, we do not rule out further cuts of the Selic rate, currently at 3.75%. Moreover, the government agreed on a monthly emergency support of BRL 600 real for around 38 million informal workers and BRL 1,200 for single mothers, among other initiatives, even after President Bolsonaro initially minimized the impact from the virus.

Fixed income

Santiago Leal
Fixed income and FX Senior Strategist
santiago.leal@banorte.com

In the aftermath of the Coronavirus pandemic and drop of crude-oil prices, the global fixed income market observed a twofold reaction: (1) A strong rally in US Treasuries and other G10 bonds amid a higher demand for safe havens; and (2) a severe sell-off in EM securities depicting higher risk premia. The expected adverse economic effects of the COVID-19 outbreak resulted in a huge policy response, with central banks utilizing almost all their firepower by cutting interest rates to 2008 levels and implementing other non-traditional measures supported by their balance sheets. By the same token, governments have unleashed record-breaking stimulus packages. In this context, Banxico delivered an intra-meeting cut of 50bps accompanied by other measures, following several actions from the Federal Reserve. It is our take that the relevant shift in economic and market conditions following the abovementioned shocks has changed the mindset of Banxico's Board members into a more dovish stance –in line with the global inertia–. Overall, this landscape suggests a further steepening of the Mexican yield curve and a more defensive performance of short-term securities.

In 1Q20, the Mbonos curve steepened as the short- and mid-ends rallied 44bps and longer tenors sold-off 73bps. Cetes adjusted -96bps and Udibonos +47bps. In this context, local risk premia (10-year Mbonos-UST spread) reached its highest level since 2008 at 713bps, closing March at 642bps from 493bps in December.

In terms of strategy, we remain cautious about long-term bonds given the higher sensitivity in periods characterized by high volatility and strong risk aversion. It is our take that investors will continue benefiting liquidity and more defensive strategies, as the outlook for the 2Q20 remains challenging. In this regard, we hold our short-term tactical trade considering receiving 1-year (13x1) and 2-year (26x1) TIIE-IRS, started on March 20th, 2020. On the other hand, improved CPI dynamics have resulted in historical low levels of breakevens, especially in shorter tenors. Although current valuations in the short-end of the CPI-linked Udibonos curve are attractive, we suggest better entry points throughout this quarter for long positions.

Banorte's interest rate forecasts
%

Security	2016	2017	2018	2019	2020 forecasts				2021 forecasts			
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Banxico's reference rate												
Average	4.29	6.75	7.64	8.00	7.05	6.00	5.50	5.50	5.33	5.00	5.00	5.00
End of period	5.75	7.25	8.25	7.25	6.50	5.50	5.50	5.50	5.00	5.00	5.00	5.00
28-day Cetes												
Average	4.17	6.70	7.64	7.87	7.00	5.95	5.50	5.50	5.40	5.07	5.07	5.07
End of period	5.78	7.26	8.06	7.13	6.39	5.45	5.50	5.50	5.07	5.07	5.07	5.07
28-day TIIE												
Average	4.48	7.05	8.00	8.31	7.33	6.25	5.80	5.75	5.72	5.46	5.46	5.46
End of period	6.11	7.62	8.59	7.69	6.71	5.75	5.80	5.70	5.46	5.46	5.46	5.46
10-year Mexican bond (Mbono)												
Average	6.21	7.15	7.93	7.61	6.88	7.83	7.80	7.53	7.25	7.13	7.18	7.25
End of period	7.44	7.64	8.63	6.85	7.09	7.90	7.70	7.35	7.10	7.15	7.20	7.30
10-year US Treasury												
Average	1.84	2.33	2.91	2.14	1.38	0.80	0.88	1.08	1.13	1.18	1.38	1.65
End of period	2.44	2.41	2.71	1.92	0.67	0.75	1.00	1.15	1.10	1.25	1.50	1.80
10-year Spread Mex-US												
Average	437	482	502	547	550	703	692	645	612	595	580	560
End of period	500	523	592	493	642	715	670	620	600	590	570	550

Source: Bloomberg and Valmer for observed data, Banorte for rate forecasts
Underlined numbers indicate forecasts

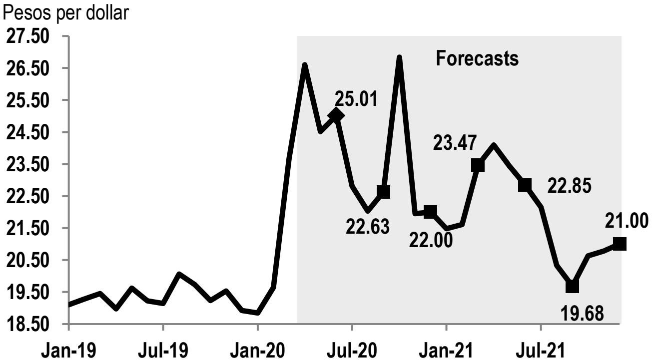
Foreign Exchange

Santiago Leal
Senior Strategist, Fixed Income and FX
santiago.leal@banorte.com

The Mexican peso registered a relevant change in the 1Q20. It began with a strong footing –outperforming most of its EM peers– up to February 14th, but ended the quarter with the sharpest depreciation since 1995. The peso finished 1Q20 with a 20.1% loss against last year's close, printing at historic highs against the USD at 23.67 (reaching up to USD/MXN 25.46 on March 24th). The adjustment was a result of the strong shock to financial markets given the adverse economic effect of the pandemic, which was accentuated by the collapse in crude-oil prices. Moreover, as carry strategies were unwounded as a result of the violent surge in volatility, financial stress accelerated and demand for USD funding triggered notable disruptions in liquidity conditions. The latter was exposed in MXN trading ranges that reached up to 8σ (~200 cents). In this context, the USD strengthened in Q1 across the board, with only a few crosses such as JPY and CHF acting more defensive, at the margin. For the MXN, implied volatility metrics rose to their highest since 2008, suggesting a remarkably skeptical market about greater balance in the short term, despite the recent stabilization. Given these operating conditions, in Mexico the FX Commission expanded the FX hedge program and raised the total amount outstanding in NDFs, while also took advantage of the establishment of Banxico's swap line mechanism with the Federal Reserve to offer USD credit auctions. In our view, the FX Commission will remain active through this type of interventions.

We expect adverse circumstances for the peso and significant volatility to prevail in the 2Q20, at least until the health crisis depicts an inflection point, especially visible in the number of infections. Therefore, we estimate more pressures in our new trajectory during this period (see graph and table below), providing space to a limited return for the peso towards USD/MXN 22.00 area by the end of the year. For the second half of 2020 we expect a performance that incorporates the first signs of recovery from the shock, with flows and positioning joining as a positive factor considering the magnitude of recent outflows from EM regions. However, we expect further spikes, with the market factoring again geopolitical risks, among them, the US presidential election on November 3rd. Strategically, we hold a long USD bias, as we see more pressures in the short-term.

USD/MXN
Pesos per dollar



Source: Bloomberg, Banorte

USD/MXN forecasts
Pesos per dollar

Period	End of period	Average
1Q20	23.67	20.00
2Q20	25.01	25.38
3Q20	22.63	22.49
4Q20	22.00	23.59
1Q21	23.47	22.19
2Q21	22.85	23.46
3Q21	19.68	20.72
4Q21	21.00	20.80

Source: Bloomberg, Banorte. Underlined numbers indicate forecasts

Stock market indices

Marissa Garza
Director of Equity Strategy
marissa.garza@banorte.com

The start of 2020 proved to be more challenging than originally anticipated, reflecting a prompt downturn on the global outlook. As such, current's complex context yielded into a strong risk aversion sentiment and extremely high volatility. Even though it is still too early to properly assess the real impact of the COVID-19 pandemic on both economic activity and therefore, on corporate earnings, it is expected that fiscal and monetary stimulus launched by several governments and central banks could aid to partially offset such impact. Nevertheless, a context of lower economic growth, a stronger dollar, lower interest rates, and depressed crude-oil prices, should now be considered.

In this context, the global stock market capitalization slumped 22.8% during 1Q20. However, we consider that until having evidence that the pandemic has been contained, volatility and uncertainty shall continue. We have learned during times of high uncertainty that this is a conjunctural matter. Therefore, sooner or later, market value and stock prices, will be recognized properly back again. Meanwhile, one should be prudent and focus on arising opportunities for the long term.

S&P500 forecast. Considering the turbulent environment, analysts continue to lower their earnings estimates for companies in the S&P500. Bloomberg consensus now anticipates a 5.9% y/y decline during 2020 (vs +9.0%e y/y back in December 2019) and a quick recovery in 2021 (+16.2%e y/y). With these assumptions, and assuming a target P/E *fwd* multiple of 16.7x (-5% vs the 5-year average, though similar to the current level), we estimate a 2020 YE level of 2,775pts.

Mexbol forecast. Strong positioning of the companies that comprise the Mexbol usually supports outperforming results when compared to overall economic growth. As such, we believe that assuming a stable EBITDA in 2020 (+0.1% y/y) is now feasible. On the other hand, considering the expected 16.2% y/y depreciation of the Mexican peso, those companies whose operations are dollarized should aid to offset the impact of a lower domestic growth. Nonetheless, a negative effect on net debt should be expected. We estimate companies' net debt to rise 9.2% y/y. As such, when assuming a FV/EBITDA target multiple of 6.8x (lower than our previous target of 7.2x), we estimate a 2020 YE level of 37,600pts for the Mexbol. It is worth noting that the aforementioned market slump has depressed the index valuation to 6.4x, well below the one-year average (7.2x), and putting aside companies' fundamentals, in our view. Finally, though we believe lower interest rates should support a mild rerating, we do consider, for the moment, going back to previous valuation levels in this 2020 as very unlikely.

2020 Mexbol Forecast

FV/EBITDA	EBITDA (MXN millions)	Net Debt (MXN millions)	Mexbol (pts)	Potential Return (%)
7.2x			40,849	21.2
7.0x			39,237	16.5
6.8x	**$8,070 (+0.1%)**	**$17,185 (+9.2%)**	**37,625**	**11.7**
6.6x			36,013	6.9
6.4x			34,401	2.1

Source: Banorte

Commodities

Leslie Orozco
Fixed Income and FX Strategist
leslie.orozco.velez@banorte.com

Commodities closed 2Q20 with a dramatic negative performance, as a result of the collapse in crude-oil prices. Specifically, the Goldman Sachs Commodity Index (GSCI) and the Bloomberg Commodity Index (BCOM) fell by 41.6% q/q and 23.5% q/q, respectively.

Crude-oil prices collapsed to their lowest levels since 2002, with Brent closing March at 22 $/bbl, amid a combined supply and demand shocks. On the one hand, the economic impacts from COVID-19 and containment measures have severely affected global consumption conditions. On the other hand, the free output policies from Saudi Arabia and Russia have integrated a backdrop of historical oversupply. After the collapse of the OPEC+ collective production cut agreement on March 6th in light of Russia´s refusal to further limit its output, Saudi Arabia has led a price war by cutting its official export prices and announcing the intention to raise April's production to 12.3 Mbbl/d (+27% vs February 2020), taking Saudi Aramco to its maximum capacity. This shock has been reflected in a 65% fall in Brent's price with respect to 2019's close, prompting the intervention of President Trump to elaborate a new output cut strategy that will include Russia and Saudi Arabia soon. In this context, the Mexican export price has reached its lowest level since 1999, closing the month at 10.8 $/bbl, equivalent to a fall of 81% compared to the end of 2019 at 56.1 $/bbl. Meanwhile, PEMEX's crude oil production increased to 1,729 Mbbl/d in February from a minimum at the beginning of the previous year of 1,623 Mbbl/d (+6.5%), with the company's target for this year set at 1,880 Mbbl/d, which could be affected by new dynamics in crude-oil prices. In terms of gasoline, the EIA forecasts 1.75 $/gal for year-end PADD 3 (-17% vs February 2020) exhibiting the drastic drop in crude-oil; however, for natural gas it estimates a 32% increase to 2.63 $/MMBtu.

During the quarter, the performance of metals was negative except for gold. The latter reached its highest in 7 years at 1,680 $/t oz, although in March this precious metal moderated its rally, closing the month at 1,577 $/t oz (+3.9% q/q). We maintain a favorable view for this metal considering stimulus actions by most central banks to mitigate the effects of COVID-19 on the economy. In industrials, copper reached 2016 lows, falling by 19.8% q/q due to uncertainty in global economic growth and lower demand. We believe the performance of this metal will remain linked to the business cycle. Finally, grains printed their strongest quarterly loss since 2015. We expect weak dynamic to prevail in this asset class considering a low likelihood of El Niño.

Commodities price performance and market consensus' forecasts

Commodity	Unit	Spot*	Performance (%)			Market consensous' forecasts				
			2018	2019	2020	2Q20	3Q20	4Q20	2020	2021
WTI	$/bbl	20.52	-24.84	34.46	-66.39	32.50	36.25	43.00	32.71	36.58
Brent	$/bbl	22.74	-19.55	22.68	-65.55	35.00	40.00	48.00	36.56	40.63
Natural Gas (H. Hub)	$/MMBtu	1.65	-0.44	-25.54	-24.58	2.10	2.20	2.55	2.05	2.48
Gasoline (RBOB)	$/gal	0.57	-26.43	28.26	-66.24	0.92	1.15	1.28	1.14	1.59
Gold	$/t oz	1,584	-1.56	18.31	4.42	1,570	1,588	1,600	1,554	1,600
Silver	$/t oz	14.03	-8.52	15.21	-21.43	15.00	15.40	16.50	16.00	17.12
Copper	$/mt	4,951	-17.69	3.50	-19.81	5,450	5,500	5,600	5,663	6,050
Corn	¢/bu	341	0.12	-4.36	-13.68	358	370	390	375	415
Wheat	¢/bu	569	3.47	0.40	1.25	513	515	510	515	492

Source: Bloomberg *as of 31/March/20; RBOB (Reformulated gasoline blendstock for oxygenate blending)

Recent research notes

Mexico

- *2021 preliminary budget assumptions – Use of stabilization funds and a higher deficit*, April 2nd, 2020, <pdf>
- *S&P Global downgrades Mexico sovereign to 'BBB'. Keeps 'negative' outlook*, March 26th, 2020, <pdf>
- *Banxico – A 50bps intra-meeting cut*, March 20th, 2020, <pdf>
- *The economic consequences of COVID-19 in Mexico* March 20th, 2020, <pdf>

United States

- *US Fed aggressive actions, with Banxico following up with a prudent cut*, March 17th, 2020, <pdf>

Fixed-Income, FX, and Commodities

- *FX Commission: USD credit auction through Fed swap line*, March 30th, 2020, <pdf>
- *2Q20 Auction Calendar: Reduction in issuance amounts for Mbonos and Udibonos*, March 23rd, 2020, <pdf>
- *FX Commission: US$ 2 billion auction*, March 18th, 2020, <pdf>
- *OPEC (+): Failure to reach a deal to extend production cuts initiates a price war*, March 9th, 2020, <pdf>

Equities

- *WALMEX: Sales posted a double-digit growth rate in February*, March 6th, 2020, <pdf>
- *NEMAK: Challenges will remain during 2020*, March 5th, 2020 <pdf>
- *Equity Strategy: Quálitas and Vesta are candidates to join Mexbol*, February 17th, 2020, <pdf>

Corporate Debt

- *Corporate Bond Market Review, March 2020: Issuances on hold through uncertainty*, April 2nd, 2020, <pdf>

Note: All our publications are available in the following link

Recent trade ideas

Trade idea	P/L	Initial date	End date
Tactical longs in 1- and 2-year TIIE-28 IRS		20-Mar-20	
Long positions in Udibono Nov'28	P	31-Jan-20	12-feb-20
Long positions in Udibono Jun'22	P	9-Jan-20	22-Jan-20
Long positions in Mbonos Nov'47	L	25-Oct-19	20-Nov-19
Long positions in Mbonos Nov'36 & Nov'42	P	16-Aug-19	24-Sep-19
Long positions in the short-end of Mbonos curve	P	19-Jul-19	2-Aug-19
Long positions in Mbonos Nov'42	L	5-Jul-19	12-Jul-19
Long positions in Mbonos Nov'36 & Nov'38	P	10-Jun-19	14-Jun-19
Long positions in Mbonos Jun'22 & Dec'23	P	9-Jan-19	12-Feb-19
Long floating-rate Bondes D	P	31-Oct-18	3-Jan-19
Long CPI-linkded Udibono Jun'22	L	7-Aug-18	31-Oct-18
Long floating-rate Bondes D	P	30-Apr-18	3-Aug-18
Long 20- to 30-year Mbonos	P	25-Jun-18	9-Jul-18
Short Mbonos	P	11-Jun-18	25-Jun-18
Long CPI-linkded Udibono Jun'19	P	7-May-18	14-May-18
Long 7- to 10-year Mbonos	L	26-Mar-18	23-Apr-18
Long CPI-linkded Udibono Jun'19	P	20-Mar-18	26-Mar-18
Long 5- to 10-year Mbonos	P	5-Mar-18	20-Mar-18
Long floating-rate Bondes D	P	15-Jan-18	12-Mar-18
Long 10-year UMS Nov'28 (USD)	L	15-Jan-18	2-Feb-18

P = Profit, L = Loss

Track of directional fixed-income trade recommendations

Trade idea	Entry	Target	Stop-loss	Closed	P/L	Initial date	End date
Long Udibono Dec'20	3.05%	2.90%	3.15%	3.15%	L	09/ago/2017	6-Oct-17
5y10y TIIE-IRS steepener	28bps	43bps	18bps	31bps	P[2]	15/feb/2017	15-Mar-17
5y10y TIIE-IRS steepener	35bps	50bps	25bps	47bps	P	05/oct/2016	19-Oct-16
Long Mbono Jun'21	5.60%	5.35%	5.80%	5.43%	P	13-Jul-16	16-Aug-16
Long Udibono Jun'19	1.95%	1.65%	2.10%	2.10%	L	13-Jul-16	16-Aug-16
Receive 1-year TIIE-IRS (13x1)	3.92%	3.67%	4.10%	3.87% [1]	P	12-Nov-15	8-Feb-16
Long spread 10-year TIIE-IRS *vs* US Libor	436bps	410bps	456bps	410bps	P	30-Sep-15	23-Oct-15
Receive 9-month TIIE-IRS (9x1)	3.85%	3.65%	4.00%	3.65%	P	3-Sep-15	18-Sep-15
Spread TIIE 2/10 yrs (flattening)	230bps	200bps	250bps	200bps	P	26-Jun-15	29-Jul-15
Long Mbono Dec'24	6.12%	5.89%	6.27%	5.83%	P	13-Mar-15	19-Mar-15
Relative-value trade, long 10-year Mbono (Dec'24) / flattening of the curve					P	22-Dec-14	6-Feb-15
Pay 3-month TIIE-IRS (3x1)	3.24%	3.32%	3.20%	3.30%	P	29-Jan-15	29-Jan-15
Pay 9-month TIIE-IRS (9x1)	3.28%	3.38%	3.20%	3.38%	P	29-Jan-15	29-Jan-15
Pay 5-year TIIE-IRS (65x1)	5.25%	5.39%	5.14%	5.14%	L	4-Nov-14	14-Nov-14
Long Udibono Dec'17	0.66%	0.45%	0.82%	0.82%	L	4-Jul-14	26-Sep-14
Relative-value trade, long Mbonos 5-to-10-year					P	5-May-14	26-Sep-14
Receive 2-year TIIE-IRS (26x1)	3.75%	3.55%	3.90%	3.90%	L	11-Jul-14	10-Sep-14
Receive 1-year TIIE-IRS (13x1)	4.04%	3.85%	4.20%	3.85%	P	6-Feb-14	10-Apr-14
Long Udibono Jun'16	0.70%	0.45%	0.90%	0.90%	L	6-Jan-14	4-Feb-14
Long Mbono Jun'16	4.47%	3.90%	4.67%	4.06%	P	7-Jun-13	21-Nov-13
Receive 6-month TIIE-IRS (6x1)	3.83%	3.65%	4.00%	3.81%	P	10-Oct-13	25-Oct-13
Receive 1-year TIIE-IRS (13x1)	3.85%	3.55%	4.00%	3.85%	--	10-Oct-13	25-Oct-13
Long Udibono Dec'17	1.13%	0.95%	1.28%	1.35%	L	9-Aug-13	10-Sep-13
Receive 9-month TIIE-IRS (9x1)	4.50%	4.32%	4.65%	4.31%	P	21-Jun-13	12-Jul-13
Spread TIIE-Libor (10-year)	390bps	365bps	410bps	412bps	L	7-Jun-13	11-Jun-13
Receive 1-year TIIE-IRS (13x1)	4.22%	4.00%	4.30%	4.30%	L	19-Apr-13	31-May-13
Long Udibono Jun'22	1.40%	1.20%	1.55%	0.97%	P	15-Mar-13	3-May-13
Receive 1-year TIIE-IRS (13x1)	4.60%	4.45%	4.70%	4.45%	P	1-Feb-13	7-Mar-13
Long Mbono Nov'42	6.22%	5.97%	6.40%	5.89%	P	1-Feb-13	7-Mar-13
Long Udibono Dec'13	1.21%	0.80%	1.40%	1.40%	L	1-Feb-13	15-Apr-13
Receive 1-year TIIE-IRS (13x1)	4.87%	4.70%	5.00%	4.69%	P	11-Jan-13	24-Jan-13
Receive TIIE Pay Mbono (10-year)	46bps	35bps	54bps	54bps	L	19-Oct-12	8-Mar-13
Spread TIIE-Libor (10-year)	410bps	385bps	430bps	342bps	P	21-Sep-13	8-Mar-13
Long Udibono Dec'12	+0.97%	-1.50%	+1.20%	-6.50%	P	1-May-12	27-Nov-12
Long Udibono Dec'13	+1.06%	0.90%	+1.35%	0.90%	P	1-May-12	14-Dec-12

1 Carry + roll-down gains of 17bps

2. Closed below target and before the proposed horizon date due to changes in market conditions that have differed from our expectations.

Short-term tactical trades

Trade Idea	P/L*	Entry	Exit	Initial Date	End date
Long USD/MXN	P	19.30	19.50	11-Oct-19	20-Nov-19
Long USD/MXN	P	18.89	19.35	20-Mar-19	27-Mar-19
Long USD/MXN	P	18.99	19.28	15-Jan-19	11-Feb-19
Long USD/MXN	P	18.70	19.63	16-Oct-18	3-Jan-19
Short USD/MXN	P	20.00	18.85	2-Jul-18	24-Jul-18
Long USD/MXN	P	19.55	19.95	28-May-18	4-Jun-18
Long USD/MXN	P	18.70	19.40	23-Apr-18	14-May-18
Long USD/MXN	P	18.56	19.20	27-Nov-17	13-Dec-17
Long USD/MXN	L	19.20	18.91	6-Nov-17	17-Nov-17
Long USD/MXN	P	18.58	19.00	9-Oct-17	23-Oct-17
Short USD/MXN	L	17.80	18.24	4-Sep-17	25-Sep-17
Long USD/MXN	P	14.40	14.85	15-Dec-14	5-Jan-15
Long USD/MXN	P	13.62	14.11	21-Nov-14	3-Dec-14
Short EUR/MXN	P	17.20	17.03	27-Aug-14	4-Sep-14
Short USD/MXN	L	12.70	13.00	26-Jul-13	21-Aug-13

Source: Banorte

Track of the directional FX trade recommendations*

Trade Idea	Entry	Target	Stop-loss	Closed	P/L*	Initial Date	End date
Long USD/MXN	18.57	19.50	18.20	18.20	L	19-Jan-18	2-Apr-18
Long USD/MXN	14.98	15.50	14.60	15.43	P	20-Mar-15	20-Apr-15
Short EUR/MXN	17.70	n.a.	n.a.	16.90	P	5-Jan-15	15-Jan-15
Short USD/MXN	13.21	n.a.	n.a.	13.64	L	10-Sep-14	26-Sep-14
USD/MXN call spread**	12.99	13.30	n.a.	13.02	L	6-May-14	13-Jun-14
Directional short USD/MXN	13.00	12.70	13.25	13.28	L	31-Oct-13	8-Nov-13
Limit short USD/MXN	13.25	12.90	13.46	--	--	11-Oct-13	17-Oct-13
Short EUR/MXN	16.05	15.70	16.40	15.69	P	29-Apr-13	9-May-13
Long USD/MXN	12.60	12.90	12.40	12.40	L	11-Mar-13	13-Mar-13
Long USD/MXN	12.60	12.90	12.40	12.85	P	11-Jan-13	27-Feb-13
Tactical limit short USD/MXN	12.90	12.75	13.05	--	--	10-Dec-12	17-Dec-12
Short EUR/MXN	16.64	16.10	16.90	16.94	L	03-Oct-12	30-Oct-12

** Total return does not consider carry gain/losses*

*** Low strike (long call) at 13.00, high strike (short call) at 13.30 for a premium of 0.718% of notional amount*

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454